

**VI.**

**OFFICIAL DOCUMENTS**

**Relative to the Amount of Payments to be effected by  
Germany under Reparation Account.**

**SECOND PART.**

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**(Memorandum presented by the French Delegation,  
15th March, 1922.)**

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OFFICIAL DOCUMENTS

Rebates to the Amount of Payments to be effected by  
Germany under Reparation Account.

# TABLE OF CONTENTS.

	PAGE
I.—INTRODUCTION ... ..	3
II.—MEMORANDUM presented March 15, 1922, by the French Delegation on the request by Germany for a Moratorium... ..	4
III.—DRAFT DECISION ... ..	31
IV.—ANNEX ... ..	33

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## INTRODUCTION.

The French Government having asked the Reparation Commission whether it saw any objection to the publication in a "Livre Jaune" of the memorandum contained in this volume, the Commission considered it preferable that the memorandum should be published by the Commission itself as a supplement to the volume of official documents relative to the amount of payments to be effected by Germany on reparation account, already published.

It is necessary, with a view to the avoidance of misunderstanding, to give some account of the circumstances in which the memorandum was presented and discussed.

It will be apparent to readers of the documents previously published, that long discussions had taken place in the Reparation Commission, between the months of October, 1921 and March, 1922, on the payments to be exacted from Germany in the course of the latter year.

The memorandum of the 15th March presented by the French Delegation as representing its views on the question as it stood at that date, was accepted as a suitable basis for the final discussion in the Commission, which was to lead to the definite decision of the 21st March, 1922. That decision, owing to circumstances which are sufficiently apparent from a reading of the previous volume, was already overdue, and with a view to expediting procedure, the views of the other Delegations were not embodied in written documents, but a series of secret meetings was held in which it was possible for the other Delegates to explain their respective standpoints and to arrive, at an official meeting held on the 21st March, at the decision which has already been published.

Such being the procedure adopted, it is impossible, as would otherwise be natural and desirable, to accompany this memorandum by others which would disclose the other views which were elements in the discussion leading up to the unanimous decision. It is necessary to emphasize the fact that the memorandum now published represented only the French point of view, and that no inference can legitimately be drawn from it as to the views entertained by the Commission as a whole, except in so far as the final decision, which was a unanimous one, is evidence of the partial acceptance by the other Delegations of the views expressed in the memorandum.

ANDREW MCFADYEAN,  
*General Secretary.*

June, 1923.

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## MEMORANDUM BY THE FRENCH DELEGATION ON GERMANY'S REQUEST FOR A MORATORIUM.

REPARATION COMMISSION.

FRENCH DELEGATION.

March, 15, 1922.

### PART ONE.

#### PRELIMINARY QUESTIONS

As early as December 14, 1921, scarcely 7 months after accepting the Schedule of Payments, Germany asked the Reparation Commission to exercise the discretion under Article 234 of the Treaty of Versailles in regard to the extension of the time-limits for payment.

The French Delegation desires to remind the Commission that, at the time when the Schedule of Payments was being drafted, the Commission was in agreement with the Allied Governments in admitting that it was most desirable that this Article should never be applied. The German debt is, in fact, represented by negotiable bonds, and it would be contrary to all the principles of finance for it to be possible for any authority whatsoever to intervene at any time and allow Germany to suspend the service of the bonds.

Moreover, since the German annuity is a function of Germany's export trade, it follows that the Schedule of Payments itself establishes automatically a direct relation between Germany's obligations and her capacity of payment.

The Commission should therefore exercise the discretion referred to in Article 234 only in quite exceptional cases.

Since May 5, 1921, however, nothing has arisen to lessen Germany's patrimony or power to produce; consequently there is no reason *a priori* why Germany cannot pay to-day what she was considered capable of paying on May 5, 1921.

The French Delegation considers therefore that before examining Germany's request, the Commission should ask itself two preliminary questions:

1. Is the Reparation Commission dealing with "a Germany which is exerting every effort to make good the losses and damages she has caused" (letter of June 16, 1919, from the Principal Allied and Associated Powers)?

2. Is the Commission convinced that Germany is fulfilling the two conditions laid down by paragraph 12b of Annex II to Part VIII of the Treaty of Versailles (priority of Reparation charges-fiscal charges)?



# I. BAD FAITH ON THE PART OF GERMANY IN THE FULFILMENT OF HER OBLIGATIONS.

When the Allied Powers, on June 16, 1919, replied to the observations of the German Delegation regarding the conditions of the Peace Treaty, they were careful to define the role of the Reparation Commission in order to dispel the unfounded apprehensions which Part VIII of the Treaty and, in particular, Article 234 had aroused in the German Delegation.

According to this letter, the provisions of the Treaty prescribe that the Commission "shall take into account the need for maintaining the social, economic and financial organisation of a Germany exerting every effort to make good the losses and damages she has caused".

It is therefore the duty of the Commission to consider, when it receives from Germany a request for postponement, the extent of her good faith and sincerity.

The French Delegation will confine itself to a brief summary of Germany's failures to fulfil her obligations prior to May 1, 1921; deficits in coal deliveries; non-payment of the 20 milliards mentioned in Article 235; Germany's refusal to pay before March 23, 1921, the sum of one milliard gold marks, still due; Germany's refusal to transfer her gold reserves to the branch offices of the Reichsbank at Cologne or Coblenz as security; Germany's refusal to pay 1 milliard gold marks to the Banque de France on April 30, 1921.

It may also be of interest to recall that when in London, in March, 1921, the Allied Powers proposed a compromise with the German Government, the latter refused under conditions which called for the immediate application of military and economic penalties.

Since May 1, 1921, and since Germany accepted the Schedule of Payments, she has, it is true, paid the first milliard required by Article V of this Schedule. The conditions in which this payment was made, however, show that Germany was not concerned with fulfilling an obligation loyally, but merely with the averting of the threatened penalties.

In fact, this payment of one milliard gold marks represents no direct or indirect effort on the part of the German nation. Instead of organising a special levy on her nationals, Germany had recourse to a loan, although German nationals possess large sums abroad. The nation was not asked to pay a pfennig, even in the form of a loan, although German nationals possess large sums abroad. The printing press was the sole means of artificially creating the supply of marks necessary for the purchase of foreign currency required for the payment of the milliard.

Although, to a certain extent, the payment of the milliard hastened the depreciation of the mark, this was due rather to the conditions in which the operation was carried out than to the payment itself.

Not only did Germany make no real effort to obtain this milliard by normal methods, but since May 5, 1921, she has made no effort to place herself in a position to meet her future obligations. It will suffice to recall the changes in the fiscal policy which the German Government announced with great ostentation to the Committee of Guarantees in July, 1921.

On July 6, the Chancellor made a memorable speech in the Reichstag. On August 17, the Government announced its proposals to the Reichstag. The latter immediately adjourned until September 3 and did not meet again until September 27. It held five or six meetings without discussing the taxation proposals and adjourned until the end of October. On November 3, 4 and 5, it at last took up the discussion of the famous programme, but adjourned almost immediately, that is, on November 7. It met again in December but the question of taxation was not discussed.

The fiscal compromise which emerged from these fitful discussions is still in the draft stage.

Moreover, since July 6, when the Chancellor announced to the Reichstag his intention of taking into account the views expressed by the Committee of Guarantees and presented a Budget providing for 35 milliards in new taxes, the Reichstag Committee, instead of carrying out the exhortations of the Chancellor, have done their best to destroy the economy of the Budget originally presented.

Thus, instead of resulting in increased returns, the Income Tax will almost certainly show a decrease.

As regards the tax on coal, the Reichstag Committee has reduced the basis rates from 40 per cent. to 30 per cent. while retaining the method of calculation adopted.

The tobacco tax has also been greatly modified. The rates proposed have been slightly reduced, but the principle of the scheme, eliminating all the reductions in taxation hitherto granted, has been abandoned.

The rate proposed for the tax on sugar was 100 marks; it has been reduced in Committee to 50 marks.

Finally, of the fifteen taxes proposed, only one, the tax on motor-cars, has been increased by the Reichstag Committee. It has adopted a new and more rapid scale of progression which, for heavy cars, provides for a rate almost double the one proposed.

The Reichstag for its part gives evidence of no better faith in examining or voting the fiscal programme. While the Government proposals were being undermined in Committee the Assembly adjourned on December 18 until January 19.

The German Government has adopted the same tactics towards the Reparation Commission in regard to the raising of an industrial loan. A bill for seizing gold securities was announced with great ostentation; it was then stated that the German manufacturers were spontaneously offering to the Government their foreign assets; soon after, however, it was found that the offer was made subject to impossible conditions.

Upon the visit of the Commission to Berlin, the Chancellor renewed his assurances, and promised to make further efforts. The Commission heard him in a lenient and confiding spirit in spite of the repeated warnings of the French Delegate. It was later discovered that the loan from the manufacturers was in reality a loan to the manufacturers and that the latter were by no means disposed to place their assets at the disposal of the Government, but that they would try to negotiate a long-dated loan on the strength of which they could grant short-dated advances to the Government for the instalments due on January 15 and February 15. Eventually, it was found that even this operation could not take place because the foreign financiers refused any credit, either short or long-dated, not to the manufacturers this time but to the German Government.

It will not be denied that the French Delegate had foreseen that the attempt to obtain credit was nothing but a huge piece of bluff and was bound to end in this manner.

The same bad faith and dilatory methods are evident also in questions of detail.

One of the most significant manifestations of this policy, amounting to a regular violation of the Schedule of Payments is the following: the Committee of Guarantees had obtained the consent of the German Government to take measures to obtain a sum equivalent to 25 per cent. of the exports. These measures actually brought in to the German Government the corresponding revenue. On December 1, however, the date fixed for payment, Germany evaded the issue. She had assigned to purposes other than those of Reparation the sums which she had obtained, thanks to the measures prescribed by the Committee of Guarantees.

This is a case of absolute misappropriation which the Committee of Guarantees has reported to the Commission and which gave rise to its letter of December 8, 1921, to the German Government.

Finally, after exhausting every imaginable means of giving the Reparation Commission and the Allies the illusion that it was acting in good faith, the only resource left to the German Government is to ask for a postponement.

The Commission must not allow the German Government to suppose that it can keep up the deception any longer.

## II.—PARAGRAPH 12b OF ANNEX II.

In a letter dated January 28, 1922, the German Government asks the Reparation Commission to make use in favour of Germany, of the powers conferred on the latter by Article 234 and paragraph 12 of Annex II of the Treaty of Versailles.

The principles laid down in these clauses and the course which they impose on the Reparation Commission as regards its reply to the request submitted to it, are very clearly stated in the Treaty. They may be summed up as follows :

1. The power given to the Reparation Commission in Article 234 is dependent on an estimate to be formed by the Commission, of " the resources and capacity of Germany." It is, indeed, after considering the resources and capacity of Germany, and as a consequence of this examination, assuming it to be in Germany's favour, that the Reparation Commission may " extend the date and modify the form of payments ".

In other words, the Reparation Commission may grant extensions if it has decided that the resources and capacity of Germany are not sufficient to enable her to meet her liabilities.

2. In the same way as the power to grant extensions is dependent on the estimate formed of Germany's capacity to pay, so also the estimate of German capacity is itself dependent on the German scheme of taxation. The latter must fulfil two conditions.

All the revenues of Germany, including those earmarked for the service or discharge of any internal loan, must be assigned as a first charge for the payment of the sums which Germany is required to pay by way of reparation.

The German scheme of taxation must, in general, be fully as heavy proportionately as that of any of the Powers represented on the Reparation Commission.

These are the exact words used in paragraph 12 of Annex II. The wording of the text deserves attention.

The provision in question represents a formal obligation for the Reparation Commission. It says : " The Commission *must* comply with the following conditions and provisions." The full significance of this expression will be grasped if it is noted that it stands at the end of a paragraph in which the Treaty sets forth in the broadest possible manner, the *rights* of the Commission, and this very statement of its rights closes with an *obligation*, which is all the more binding by the very circumstance of its position in the Treaty.

Similarly, the text prescribes that the Reparation Commission must have " *the certitude* " that the German taxpayer is as heavily burdened under the German scheme of taxation as the taxpayer in any one of the Powers represented on the Commission.

If however, these two conditions are not complied with, no further consideration can be given to a request for a moratorium. Germany must first of all modify her scheme of taxation in order to satisfy them. This is a situation which the Treaty provides for, but which has not arisen.

It must be admitted, moreover, that no other line of action could be contemplated in fairness or even in common honesty. Germany is in the position of a debtor who owes a certain sum and who asks his creditors for time in which to pay. What would these latter do before replying? What would any court in any civilised country do if the question were laid before it? They would try to find out how the debtor employed his resources.

If he has not reduced his mode of living to the necessities of life, if he buys property, builds houses and incurs expense in every direction, they will say to him: "you must first eliminate from your expenditure all that is not indispensable for your existence and the upkeep and productive power of your patrimony. Until then, no extension of credit can be considered."

If they observe that he pays debts which he has contracted elsewhere, although their claim is a first charge on his assets, they will say further "no extension of credit can be considered so long as you continue to disregard the order of priority of your debts."

Furthermore, they will apply to the Court to prohibit his making payment to creditors other than those having a priority right, and there is no tribunal in the civilised world which will not accede to their demands.

Assuming that the result of this investigation of the debtor's expenditure is in his favour, and that he is in fact applying his resources to the partial repayment of his priority debt, the creditor will not fail to consider the position of his debtor from another point of view.

Is the debtor drawing from his assets or his labour the full yield which he can possibly extract from them. A debtor who, having the chance to work or to draw a considerable income from his capital, systematically neglects to do so, would not be entitled to have his request for the postponement of payment granted, and the court before which he might appear would refuse to grant the period of grace and would accord to his creditors the right to seize his property.

The provisions of the Treaty, besides the fact that they are categorical, have therefore only expressed the elementary requirements of conscience throughout the world. There is not a place in the civilised world where proceedings of this nature would not be settled as the Treaty has laid down.

The outcome of these explanations is that the Reparation Commission, having before it a request for postponement, and hence



being obliged to consider Germany's capacity to pay, must first ask itself two questions :

- (a) Have the sums for reparation which Germany is required to pay become a first charge upon all her revenues?
- (b) Is the German tax-payer as heavily taxed as Allied tax-payers?

**A.—THE ASSIGNMENT OF GERMAN REVENUES TO REPARATION.**

The second question implies that the first has been answered in the affirmative.

If the payment of reparation is not considered as a first charge upon all German revenues, it is of no avail to ascertain whether the German tax-payers are as heavily burdened as the Allied tax-payers. No conclusion could be derived from this examination, save the answer to the first question, that is, that such assignment must be made. It is not until this has been done and that reparation payments are still due that there can be any interest in ascertaining whether the German tax-payer is paying even the minimum of what he should pay.

The situation is therefore plain and straightforward : when a request for a moratorium is placed before it, the Reparation Commission must immediately satisfy itself that the total revenues of Germany, including the service of the internal debt, are assigned by right of priority to the payment of reparation.

If the answer to this is in the negative, Germany should be informed that her request for a moratorium cannot be considered until her system of taxation has been revised on this basis.

It is obvious moreover that, when stipulating that the payment of reparation was to be considered as a first charge on all German revenue, the Treaty did not refer to the sums required to ensure the existence of the State, the working of public undertakings or even those expended in view of maintaining social peace.

Even if full allowance for this reservation is made, an examination of the German budget compels the Reparation Commission to state that not only has the preliminary condition laid down in the Treaty not been satisfied, but it does not even appear to have been seriously taken into consideration.

Germany has never provided for any receipts against the expenditure made in respect of reparation. In the draft budget now placed before the Commission, the surplus receipts of the ordinary budget alone, that is 16,000,000,000 marks, are assigned to the payment of reparation.

Germany's normal receipts have so far been applied to expenditure which was sometimes quite unjustified, and her reparation obligations have been met only fortuitously. She might have exercised more economy in some respects if her resources had primarily been assigned to expenses enjoying absolute priority.



The Committee of Guarantees has, moreover, drawn the attention of the Reparation Commission to this situation, which is so obviously contrary to the Treaty. The following statement is made in the report of the Committee of Guarantees under date of October 29, 1921 :

" In regard to the form of the budget, the Committee has pointed out that it was incorrect from a legal point of view, to submit the budget while primarily utilising the revenue to cover the expenditure proper, both ordinary and extraordinary, of the Commonwealth, in such a way that expenditure for the execution of the Treaty is covered only by the balance, if any, of the revenue ; there is however in this case no balance.

" It would be more compatible with Germany's obligations, particularly under Article 248 and paragraph 12b of Annex II to Part VIII of the Treaty of Versailles and Article 7 of the Schedule of Payments, first to submit the Treaty Budget, showing in respect of expenditure the sums due for the Armies of occupation and for Reparation, and, in respect of revenue : (1) customs returns ; (2) the proceeds of funds especially assigned under paragraph (c) of Article 7 of the Schedule of Payments."

Under these circumstances, the Reparation Commission can but reply to the request of the German Government that the examination which has been made of the German system of taxation having proved that the sums for reparation which Germany is required to pay, have not been made a first charge upon all her revenues prior to that for the service or discharge of any domestic loan, it cannot accede to the request which has been placed before it.

#### B.—COMPARISON OF FISCAL BURDENS.

The French Delegation recognises the difficulty of any attempt to compare the fiscal burdens of two countries during periods when the purchasing power of the currencies compared is constantly fluctuating.

It is nevertheless of opinion that the facts of the problem are now sufficiently well known to enable the Commission to state whether it is convinced that the fiscal burden borne by Germany is as heavy as that of the most heavily taxed Power represented on the Commission.

The French Delegation feels certain that the Commission is convinced that this it not the case. In comparison with the British burden, the insufficiency of the German burden has never been disputed. The French Delegation, however, wishes to emphasise the fact that in its opinion the German fiscal burden falls far short of that borne by France, and desires to convince the Commission of this fact.

In 1921 the receipts were as follows :

In France .....	22,000,000,000 francs.
In Germany .....	82,800,000,000 marks.

At the rate of conversion proposed in the German memorandum itself, that is 1 franc=5 marks, the following figures are obtained :

France (39 million inhabitants) .....	110,000,000,000 marks.
Germany (60 million inhabitants) ...	82,800,000,000 „

The French Delegation, however, considers that this simple statement, so clearly in favour of France, is not sufficient.

In the first place, it is firmly convinced that no sums representing subsidies or services rendered freely and below cost price should be included in the fiscal burden of Germany. It considers that the 22 milliards which represent food subsidies should undoubtedly be subtracted from the 82 milliards of receipts; for it is quite obvious that the tax-payer received part of the amount paid to the State in the form of cheap bread.

The same applies to the railway and postal deficit, or at least to that part of it which represents the working deficit.

The French Delegation is further of opinion that the matter must be gone into more thoroughly and that the fiscal burden of a country cannot be accurately estimated apart from its expenditure. This is shown by the case of two countries equally populated, both of which pay the same amount in taxation; one, however, uses most of this amount for the development of its economic machinery, and for the construction of public buildings, whereas the other has to use it for the service of its public debt, for its national defence, or for repairing damage inflicted on it. The burdens borne by the two countries cannot be compared.

The reports sent in by the services of the Commission give evidence of the fact that Germany is increasing her expenses of a purely economic or even sumptuary nature.

Germany has to expend for the service of her debt only 17 milliards, that is 3,400 million francs at the above rate of conversion, whereas France, with a population of 1/3 less, has to ensure a service of 12,866 million francs.

National defence costs Germany 5,677 million marks, or 1,200 million francs; it costs France 4,821 million francs.

The French Delegation also wishes to point out that it is much easier to pay taxes in a country in which the State never ceases to issue bank notes and thus causes an increase in salaries and profits of every kind, than in a country with a sound financial policy, which repays the advances made by its Bank of Issue, stabilises revenues of every kind and even decreases them by restoring a higher purchasing power to the currency in which they are expressed

Finally, the French Delegation must insist strongly on a point which has not yet been brought forward in the reports submitted to the Commission. The devastation of her northern provinces has considerably reduced France's tax-paying capacity.

Taxable property has been destroyed : in France, where most of the taxes are assessed on real property, houses, factories and farms, the immediate result of the destruction of this property is a decrease in the taxation receipts in the devastated areas.

Similarly, industrial activity has been stopped in those departments : the receipts from the tax on industrial and commercial profits have decreased ; the destroyed mines can no longer pay their normal duties, etc. These additional taxes, which in normal times France could have raised from the revenue of her rich northern provinces, she is now obliged to raise from that part of her national property which was spared by the war.

The conclusion to be drawn from these considerations is that Germany is considerably less heavily taxed than France.

It is therefore certain that from the strictly legal point of view the Reparation Commission must reject the German claim as inadmissible.

In conformity with paragraph 11 of Annex II, however, the Commission is to be guided by equity as well as by law, and must also take into account the facts of the case.

If, since May 5, 1921 (we do not wish to go further back), Germany has failed to fulfil her obligations, if, in spite of the repeated and urgent demands of the Reparation Commission and the Committee of Guarantees, she has obstinately refused to take the necessary steps to meet her obligations, we are obliged in equity to recognise that she may have felt encouraged at least to a certain extent by the lack of agreement among the Allies.

Germany is at present, by her own fault, so situated that it may at first sight be feared that during the next few months she will be unable to execute the Schedule of Payments in full without compromising her financial position, perhaps for a considerable period, to the detriment of her creditors, and in spite of the fact that the economic position of her nationals is entirely different. This, at least, is what certain of our colleagues appear to fear.

For these reasons the French Delegation is willing to examine the German request for the postponement of payment, in order to consider the action to be taken on the question.

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## PART TWO.

By its decision of January 13, 1922, notified to the German Government, the Reparation Commission requested this Government to submit, in support of its demand for a moratorium, "a complete schedule of cash payments and deliveries in kind for the year 1922".

In its reply of January 28, 1922, Dr. Wirth, Chancellor of the Commonwealth, declared that he "was complying with this request".

Part 11 of his reply in fact was headed : Programme of deliveries to be carried out in 1922.

Under this heading however, nothing is to be found. The attitude adopted by the Chancellor is but the continuation of that taken up at Cannes by Herr Rathenau.

Does the German Government at least satisfactorily explain the reasons for which it cannot discharge the obligations incumbent upon it under the terms of the Schedule of Payments? It does not.

A comparison between the vague considerations set forth by the Chancellor in the above letter and Herr Rathenau's statement to the Commission at Cannes on January 11, 1922, shows that the only reasons advanced are the following :

(1) Economic exhaustion of Germany which is made manifest by "a marked falling off of the general productiveness and particularly of that of agricultural undertakings," and by the shortage of raw materials of which "with the exception of coal, Germany possesses but little."

(No proofs are given in support of this statement.)

(2) Deficit in the commercial balance due to the shortage of raw materials and foodstuffs which compels Germany to import very much more than she exports.

(3) Depreciation of the mark, due to the above reasons and to the necessity for Germany of obtaining foreign currencies in order to meet her reparation obligations.

(4) Impossibility of procuring resources within the country, by reason of the burden laid on the German tax-payer, who is said to be more heavily taxed than the Allied tax-payers.

(5) Impossibility to resort to foreign loans, as shown by the failure of the attempt made in London in December last.

The French Delegate might merely reply that no sufficient proof is given in support of any of these statements and that it is the duty of the claimant to vindicate his claim, failing which the claim might be rejected without further discussion.

We will, however, examine each statement in turn.

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## CHAPTER I.

## ECONOMIC EXHAUSTION OF GERMANY.

France and Belgium, whose territory has suffered devastation, have much more reason than Germany to complain of economic exhaustion. Germany has been spared both in the language and the application of the Treaty.

Although some of the ceded territories are rich, Germany has been allowed to retain the richest, for example: the Ruhr Basin, Hamburg, Bremen, Saxony. Furthermore, the payments which the Allies have required that Germany should make out of her capital to meet her reparation obligations and to settle private debts do not amount to 6,000,000,000, whereas the pre-war estimates of this capital varied between 330 and 380 milliards.

It is inconceivable moreover that a people numbering 60 million inhabitants, whose organisation, discipline, zeal and ambition had, even in pre-war days, greatly shaken the very foundations of the world's economy and which threatens once more to destroy the frail post-war economic structure, should not be in a position to make an effort equal to that of the countries whose vitality it has sapped, especially as it has lost neither a factory nor a mine.

Germany makes much of the falling off of the production of raw materials and agricultural products.

The fuel output shows a regular increase over the 1920 figure. As regards lignite, it has even considerably exceeded the pre-war figure. While in most countries the iron output was falling off in 1920, it was increasing in Germany.

Although considerably lower than in 1913, the agricultural output is constantly increasing, as regards both the area cultivated and the yield per hectare.

The production of bread cereals in 1921 exceeded that of 1920 by 25 per cent. (9,939,000 tons as against 7,226,000). The statistics regarding Prussia are highly encouraging.

A country of such extensive and fertile plains, whose methods of cultivation are so highly developed, cannot fail to recover at an early date its pre-war agricultural productiveness.

As to German industry, its prosperity is in strange contrast with the slump which prevails in other countries.

The hemp, wool, silk and velvet industries, the metallurgic and chemical industries are working at full pressure. The Leipzig fair was a striking demonstration of Germany's economic vitality. It has proved that German industry is provided with orders covering a period of many months and that it is refusing all further orders.

Unemployment is no longer known in German industry; certain branches are working overtime and complaints have been made regarding the shortage of labour; emigration has fallen to nil; the birth roll for 1920 was 1,600,000.



German competition is strong on all markets, and German industry, not satisfied with this competition, is settling in foreign countries, is buying up foreign shares and building factories abroad.

Could an economically exhausted country act in this way?

## CHAPTER II.

### COMMERCIAL BALANCE.

The German Government next invokes the deficit of its commercial balance.

According to Dr. Rathenau, this may be stated as follows :

<i>Assets.</i>	<i>Liabilities.</i>
Exports : $3\frac{1}{2}$ to 4 milliard gold marks.	Imports : 5 milliard gold marks.
	Interest on foreign debt : 750 million gold marks.

This gives a deficit of about 2 milliards, without counting reparation payments.

Professor Hirsch, Secretary of State, submitted to the Committee of Guarantees a table which gives practically the same figures :

<i>Assets.</i>	<i>Liabilities.</i>
Exports ... .. 4 milliards	Imports :
Deliveries in kind ... $\frac{0.6-1}{5}$	Foodstuffs ... .. 2.50
	Raw materials ... .. 2.50
	Manufactured products... 0.75
	Luxuries (Rhineland) ... 0.35
	<hr/>
	Foreign debt ... .. 6.10
	<hr/>
	6.85
	<hr/>

It may be asked whether there is not a tendency to under-estimate the exports and to over-estimate the imports, and whether certain items have not been omitted from the assets?

#### 1. Under-estimation of exports.

In regard to this point the French Delegation has only to refer to the reports drawn up by the Services of the Commission and by the Belgian Delegation; the French Delegation concludes that the least that can be said is that the reports give a very distinct impression that the gold value of German exports is considerably higher than the figure given by Dr. Rathenau.



Even without questioning the sincerity of the German statistics, it may be stated that they do not represent the exact situation in regard to German foreign trade. It seems in fact that Germany has not realised all that she might have done from her exports.

As a result of the low home prices artificially maintained by the measures which the German Government has adopted to the detriment of the public finances (food subsidies, and the railway and the postal deficit), German exporters are able to sell in the foreign market at prices well below normal. They have not failed to do this, sometimes through ignorance, but also deliberately, in order to defeat competition and to overcome the reluctance of the purchaser by absurdly low prices. The low figure of German selling prices, resulting from anti-economic measures, is an abnormal fact which may have vitiated the commercial balance.\*

The French Delegation does not consider it admissible that Germany should, in forecasting her commercial balance, take advantage of this situation, which moreover she abuses in order to pursue against the Allies an unfair policy of dumping and of discrimination which is so profoundly disturbing the international market. If in fact German exports for the time being amount to only four milliards, there is certainly among the assets of the commercial balance a "potential" value which Germany must realise before being justified in claiming a deficit.

## 2. *Over-estimation of imports.*

The Solvay Institute has shown that the German statistics themselves were in contradiction with Dr. Rathenau's estimate, and that his figure of 5 milliards should apparently be reduced to 3,700 million.

The French Delegation wishes moreover to submit certain remarks on these statistics taken by themselves.

In August, 1921, the German Government claimed that it was obliged to purchase in the foreign market 1,500,000 tons of wheat for the period August 15, 1921, to April 1, 1922. Its estimate of expenditure was based on a price of \$60 per ton. The maximum price of a ton of wheat in September and October, however, was \$50 per ton delivered at Hamburg.

There appears therefore to be a tendency on the part of the German Government to over-estimate its expenses. Such a tendency had already been noted in the reply of the German Government to the Brussels experts at the end of 1920. The imported food stuffs really cost 1,770 million gold marks, whereas the German estimate had been 5,100 million.

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\* It seems moreover that the measures adopted by the Committee of Guarantees in order to collect 25% of the exports has moved the exporters to realise higher profits on their goods.

Finally, it may be asked whether the quantities imported have not been excessive and might have been considerably reduced. It is to be noted first of all that the importation of luxuries is equal to and even greater than it was before the war.

The quantity of food stuffs to be imported is astonishing, and in any case it may be doubted whether in the coming year it will amount to the figure given by Dr. Rathenau, which is probably based on the imports of the past year.

German industry has recovered from the check it received from the war, and the agricultural activity is shown both by an increase in the area under cultivation and by a larger yield per hectare.

The production of bread cereals was 25 per cent. higher in 1921 than in 1920 (9,939,000 tons as against 7,226,000 tons). The Prussian statistics are in particular very encouraging.

Moreover, the importation of cereals in December was 45 per cent. less than in the preceding months, and diminished in a still greater degree in January, 1922.

In general, it cannot be admitted that a country in the situation of Germany, possessing such vast plains and such improved methods of agriculture, should draw so heavily on foreign farm products. Whereas in France, a heavy consumer of bread cereals, the total amount of *food stuffs* imported in 1921 did not exceed 40 million quintals, Germany imported, during the last eight months of 1921, 47 million metric quintals of cereals alone.

In the same way the importation of industrial material seems in many cases to be excessive. For example, whereas in 1921 France imported barely 50 million metric quintals of copper per month, the quantity imported by Germany per month rose from 77 million in May, 1921, to 164 in October and to 244 in December.

These imports would be justified if they corresponded to the requirements of the export industry, but it must be noted that a great part of them are utilised solely for the reconstitution and improvement of plant and equipment in Germany.

If Germany's balance as a whole shows a deficit, this is due in part to the fact that she refuses to understand that in order to pay she must first of all reduce her consumption, especially that of foreign goods. Contrary to the general impression and in spite of the depreciation of the mark, German imports increased considerably during 1921; they amounted to 15 million quintals in May, to 21 million in December and to 23 million in January, while they reached the figure of 30 million in October. Germany continues to live as she did during her greatest prosperity.

The increase in German consumption is moreover encouraged by the absence of taxes on consumption, by the measures adopted by the Government to reduce the cost of living (food subsidies, assumption by the State of the postal and railway deficits, etc.), by the maintenance of a low rate of discount and the low interest paid on

treasury bonds; it is further to be noted that these are the very measures which cause the budgetary deficit and are directly responsible for the issue of notes, which, in its turn, aggravates this increase in the consumption.

Before the war, Herr Helfferich estimated that German consumption amounted to only  $\frac{3}{4}$  of her production (33 milliards as against 43 milliards). There is no doubt that if Germany observed such political economy at present, she would not be obliged to import more than she exports.

### 3. *Interest on the Foreign Debt.*

Dr. Rathenau estimates this interest at 750 million gold marks.

As a matter of fact, it is impossible to see on what data this figure is based; it may be that Dr. Rathenau takes into account foreign stock in German undertakings, the amount of which has been considerably exaggerated in Germany. The idea of the *Ueberfremdung* has been grossly abused. An important report drawn up by a German shows that foreign capital is far from playing the decisive role in Germany that it is supposed to play, and that the alleged peril of *Ueberfremdung* has been considerably exaggerated. Moreover, foreign shares in German undertakings must be set off against German undertakings, and it is known that the latter are far from being negligible.

Moreover, the amount of Germany's foreign debt is practically negligible, and in any case it must be asked why Dr. Rathenau takes this item into account before considering reparation payments. Here, as in matters connected with the budget, the priority of reparation payments and the first charge laid down by Article 248 must take precedence of the interest on the foreign debt, and the German Government has no right to include the latter among its liabilities in determining the surplus of its commercial balance available for reparation payments.

### 4. *Items omitted from the Assets.*

On the other hand Dr. Rathenau has failed to include among the assets large sums which Germany obtains from other sources: invisible exports, expenditure by foreigners in Germany, income from foreign investments, income from German organisations or commercial shares abroad and freight charges on goods passing through Germany.

He has also neglected to mention the export of capital, which has increased the assets of Germany and her nationals in foreign currency, and which is a transaction which has victimised the foreigner who has exchanged his money in good faith for a currency which Germany then causes to depreciate as she pleases.

\* \* \* \* \*

In view of the foregoing, the French Delegation believes that it may in all certainty conclude that the amount of foreign currency received by Germany or her nationals during the past year is considerably in excess of what she has spent.

The Delegation is further convinced that during the coming year Germany will be able, in view of her industrial activity and the increase in her agricultural production, to balance her commercial assets and liabilities, and that she can moreover constitute a very large surplus :

(a) *By restricting imports not necessary for normal industrial requirements.*—This restriction might be accomplished automatically by increasing the taxes on consumption to the figure of the same taxes in the Allied countries, by the suppression of food and other subsidies and by the encouragement of thrift by means of a higher interest on treasury bonds and on deposits in savings banks.

(b) *By pursuing a policy of valorisation of its exports.*—That is, by abandoning measures whose effect and purpose is to diminish the cost of home production, and by thus obliging the German exporter to realise the maximum profit from his exports.

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### CHAPTER III.

#### GERMAN EXCHANGE.

The German Government cites the "collapse of the mark" in support of its request for a moratorium. It must indeed be admitted that the situation in regard to German exchange gives cause for the gravest anxiety. It is necessary to ascertain, however, whether, as it is claimed, this situation is the direct outcome of Germany's past and future reparation payments, or whether, as the French Delegation declares, it is due to a disastrous financial policy which it would be possible, even if difficult, to remedy.

In the first case, the excuse advanced by the German Government would be valid; in the second, it would be unfavourable to Germany.

We have shown above that Germany's economic power has remained practically undiminished and that her production was still increasing. The depreciation of the mark, therefore, is not primarily due to natural economic causes, neither is it the consequence of reparation payments.

The transfers made by Germany up to the present are almost insignificant and are far from equalling those which France succeeded in carrying out fifty years ago without affecting her exchange.

Although the payment of the first milliard was followed by a rapid fall of the mark, this does not prove that this was a case of cause and effect, and, in the degree to which such a connection existed, the depreciation in question was due far more to the conditions in which the payment was effected than to the payment itself. It is moreover certain that if German nationals had, voluntarily or otherwise, placed a very small portion of the currencies which they held abroad at the disposal of the Commonwealth, the operation might have been carried out without recourse to the purchase of currencies, and therefore without any appreciable effect on the exchange.

The French Delegation is convinced that the depreciation of the German exchange is primarily, and almost exclusively due to the monetary crisis which Germany has produced by her policy of inordinate inflation and by adopting a financial policy which encouraged the migration of capital.

We need only refer to the curves submitted by the German Government to realise that, in time, it is the fiduciary inflation which brings about the depreciation of national currency. By asserting that this depreciation is responsible for inflation, the German Government is endeavouring to draw the Reparation Commission into a vicious circle.

The principal cause of the depreciation lies in the issues made during the war and in the fact that no effort has been made since the Armistice to redeem them. A wise financial policy would have induced Germany to restrict her loans as much as possible, but she saw, in their extension, the means of acquiring the funds to meet her foreign payments. It is true that the deficits in the balance of accounts (not the commercial balance) can be covered only by the export of national currency, but while in such cases the bank of issue should do all in its power to limit credits and thereby cause a reduction in consumption to make good the deficit in the commercial budget, the Reichsbank, in agreement with the Government, upon which it is dependent, has increased its issues and consequently stimulated consumption and aggravated the situation during the years that followed the end of the war.

The resulting state of insecurity has led to what the Germans call the "boycott of the mark".

Certain industrialists, merchants and exporters have left the currencies which they obtained from their commercial transactions, in foreign countries. By omitting to call in the equivalent value of their exports they have created a shortage of currencies on the exchange market, the result of which has been an inevitable rise in quotations.

Others, such as capitalists of all kinds, Government officials and persons of independent means, who had no currencies at their disposal, hastened to exchange their marks for foreign securities and exported their capital on a large scale.



The German Government took no steps to prevent this migration of capital. It has scarcely attempted to obtain any information on the question and it is known that any measures it has taken were of a very platonic character and totally ineffective.

More than 100 milliards marks are at present lying in foreign countries and are a continual burden on the exchange market. So long as this inflation continues, their holders will see their share of the realisable assets of the Bank and the Commonwealth gradually decreasing. The moment inflation is stopped, the intrinsic value of the mark will be stabilised. It is generally admitted that the effects of such a happy situation would immediately influence German exchange.

The Commission would therefore be seriously misled if it accepted, as an excuse, a situation for which the German Government is responsible and over which it can exercise direct control.

From the following chapter, it will be seen that the suspension of inordinate issues could very well be realised by a more energetic financial policy.

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#### CHAPTER IV.

#### IMPOSSIBILITY OF PROCURING FUNDS WITHIN THE COUNTRY.

The German Government has endeavoured to prove that it was not in a position to procure, within the country, the funds necessary for the discharge of its reparation obligations. It asserts that the burden of the German taxpayer has now reached its maximum and that the expenditure of the Commonwealth has, on the other hand, been reduced to a minimum.

##### I.—RECEIPTS.

The French Delegation has already, in Part I of its Memorandum, expressed its opinions regarding the burden of taxation. The German Government having however urged this point, the French Delegation wishes to point out how far its statements are from the truth.

##### A.—TAX ON PROPERTY.

The method adopted in the German Memorandum, which consists in selecting from such widely divergent fiscal systems as those of France and Germany one or even several given taxes and comparing their rating in the two countries, is neither fair nor scientific. In the memorandum submitted to the Allied Powers in London in March, 1921, the Germans themselves called attention to the unfairness of comparing, as had been done by the Brussels experts, the German and French indirect taxes, and claimed that



the German fiscal system, which being based on direct taxation and therefore bearing heavily on even the poorer members of the population, was not compatible with a system of heavy taxes on consumption.

The German Government, however, now adopts the method which it previously criticised and bases the comparison between France and Germany on a given tax, that is, income tax, which is in fact very much higher in Germany than in France.

It is permissible to refuse to enter upon a discussion of the question on this basis.

If, however, this method were accepted, we should also be justified in selecting a few other taxes, death duties for instance, in respect of which the French Budget for 1922 anticipates a return of 1,013,000,000 francs and the German 1921-1922 budget a return of only 620,000,000 marks: if we apply the proportion of 5 marks = 1 franc proposed by the Germans themselves, and take into consideration the difference in the number of the population (40 as compared with 60 million), the figures obtained for comparison are 1,000,000,000 for France against 83,000,000 for Germany.

In the same budget, the tax returns in respect of the purchase of landed property amount to 500,000,000 mks. in Germany, and the transfers of buildings against payment amount to 875,558,000 francs in France; that is, on the same basis, a ratio of 876 to 66.

The returns from the customs duties are estimated at 2,706 millions in France and 4,400 millions in Germany, that is, a ratio of 2,706 to 586.

The sugar tax in Germany is 14 marks per quintal only, that is, 2.80 francs on the basis of a ratio of 1.5, whereas in France the same tax is 80 francs per quintal.

Many more such examples might be given.

Since the purpose of the German memorandum seems to be to compare the relative fiscal burden of the tax-payer rather than to compare the fiscal effort of the Nation, the following statement might be made in reply.

Taking the case of a married tax-payer with two children under age, whose income amounts to 30,000 marks, and assuming, in conformity with the German memorandum, that the corresponding income in France, is 6,000 francs the German tax-payer will pay 1,260 marks income tax whereas the French tax-payer will pay nothing, since the tax is applicable only to incomes over 6,000 francs. What, however, is the real position, and do those figures actually represent the respective charges of the tax-payers?

A first rectification is necessary: if the tax-payer pays 1,260 marks to the Commonwealth, the latter immediately lightens his burden by assuming a share of his expenses in regard to food; a sum of 8,500,000,000 is entered in the budget for 1921-1922, with a view to

reducing the cost of living; this allowance is equally distributed among the population. The tax-payer thus receives from the Commonwealth :

$$\frac{8,000,000,000}{60,000,000} = 133.33 \text{ marks.}$$

per head, or a total for the four members of his family, and his charge is thus reduced to  $1,260 - 533 = 727$  marks.\*

It would appear moreover that certain taxes cannot be left out of our reckoning, particularly those on consumption. (In the example under consideration, we will confine ourselves to the above, as the small amount of the income precludes the taxes on wealth, death duties, the transfer tax, the tax on personal property, etc.).

We will therefore examine in each country, a few current consumption taxes which may be considered as equally distributed among the population. The turnover tax will be included in this examination, by reason of its widespread application.

A comparison between the estimates made in the French Budget for 1922 and the German Budget for 1921-1922, gives the following results :

		<u>France</u>	<u>Germany</u>
		in 000's of francs.	in 000's of marks.
Turnover tax	... ..	3,045,000	9,000,000
Sugar	... ..	542,620	160,000
Beer	... ..	67,000	165,000
Wine	... ..	489,000	450,000
Mineral waters	... ..	12,349	40,000
Salt	... ..	34,292	40,000
Tobacco	... ..	900,000	3,000,000
Matches	... ..	50,000	70,000
		<hr/> 5,140,261	<hr/> 12,925,000

In order to make a comparison possible between these figures, we will apply to the French figures the coefficient 5, proposed by the Germans themselves, this gives :

25,700 (France) as against 12,925 (Germany).

The above taxes would thus amount to 642.5 marks per capita in France and 215.40 marks in Germany.

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\* If we had quoted the example of a 20,000 marks income paying a tax of 260 marks in Germany and an untaxed income of 4,000 francs in France, we should have arrived at the conclusion that the French tax-payer neither pays nor receives anything, whereas the German tax-payer receives 273 marks.

For four persons, they would amount to 2,750 marks in France and to 861.60 marks in Germany .

The fiscal burdens of two families, the one German and the other French, composed in the same manner and having, on the basis laid down in the German memorandum similar incomes, would be as follows :

## FRANCE :

	Marks.
Income tax ... ..	Nil.
Tax on consumption ... ..	2,750.00
	<hr/>
	2,750.00

## GERMANY :

	Marks.
Income tax (exclusive of the food rebate ...	727.00
Tax on consumption ... ..	861.60
	<hr/>
	1,588.60

The method proposed by the Germans, which consists in comparing the tax rates in the two countries, is further defective in that it takes no account of the way in which the tax law is applied.

While it is impossible to form an exact idea of the insufficiency of the assessment and difficult to ascertain the shortcomings in the collection of the taxes, certain pertinent remarks may be made on the way in which Germany collects her income tax, on which the German Memorandum bases its argument, and it is possible to deduct important conclusions in regard to the distribution of this tax among the various classes of the population.

It appears that at the present time a great part of the direct tax is borne by the mass of workmen and small employees. In fact, while the income tax depends on the declaration of the taxpayer in the case of moderate or large incomes, it is withheld directly from salaries and wages, and the result is that the poorest classes pay *entirely and immediately* their share of the tax. This circumstance is worthy of especial attention in the case of Germany.

It is an open secret that evasion and fraud are practised on a large scale in regard to the tax on incomes derived from movable property. It is especially probable that the property which certain German nationals have fraudulently amassed abroad, and the income

from which doubtless reaches a considerable figure when expressed in marks, is not declared for taxes. The result is that whereas large incomes evade the tax for the most part, moderate and small incomes are taxed to their full value at the rate prescribed by the fiscal system.

Moreover, in a country where the currency and consequently the fixed incomes are depreciating, whereas incomes derived from industrial securities, "gold securities", are increasing, it would be necessary for the tax in marks to be levied simultaneously with the act which gives rise to the tax: the payment of wages or the payment of coupons, payment of rent, etc. While this system is carried out in regard to the tax on salaries, the situation is quite different when it is a question of the income tax on large fortunes: in the latter case the declaration of the income is made several months after it is collected by the capitalist; there is delay in the assessment of the tax, and further delay in its collection.

The result is that the taxpayer pays his tax with depreciated marks, which are far from representing the percentage of the income which the treasury claimed.

Let us take, for example, an item of income common to two Germans, one a wage-earner and the other a capitalist, in December, 1920, and let us assume that the tax on this income is in both cases 100 marks. The wage-earner paid his tax at that time, when 100 marks was equivalent to 23 francs. The capitalist, on the other hand, will not pay his 100 marks for some months, by which time they will be worth only 5 or 6 francs.

#### B.—TAXES ON CONSUMPTION.

Germany justifies the low figure of her taxes on consumption by two main arguments:

1. Consumption cannot be heavily taxed when the taxpayer is already paying a heavy direct tax.
2. The return from taxes on consumption is limited by the amount of consumption, and this is greatly reduced in Germany by the "economic distress".

In regard to the first point, it has already been pointed out how the real burden imposed on the German taxpayer by direct taxes must be considered.

In regard to the second point, two remarks are in order:

(a) Before even considering the total return, the percentage of the tax must be examined. It seems only fair that, since all prices have increased in Germany, the German Government should itself have increased proportionately the rate of the tax which forms

an integral part of the price which the consumer pays for the goods.

Now, the rate of most of the taxes has remained absurdly low: sugar pays only 14 marks per quintal, which was the pre-war rate; beer pays only 10 marks the hectolitre, and spirits pay only 800 marks per hectolitre of pure alcohol. The tax on motor cars has not been revised since 1906.

As to custom duties, the coefficient applied to them remains far below that of the increase in price.

(b) Let us next consider the influence of the "economic distress" on German consumption. A comparison with the customs statistics on imports is all the more interesting since the German Memorandum lays special stress on coffee, tea and cocoa, which are all imported and which the great majority of the population, according to this Memorandum, is obliged to do without. The comparison of the quantities of these three products imported during two-thirds of the year 1913 with those imported during the last eight months of 1921 (May to December) gives the following results:

	1913	1921
	2/3 of the year.	May to December.
	metric quintals.	metric quintals.
Raw tobacco in leaf .....	542,665	856,651
Coffee .....	1,121,669	659,674
Cocoa .....	352,522	773,148

While there is considerable reduction in the importation of coffee, tobacco imports show an increase of more than 50 per cent. and those of cocoa of more than 100 per cent.

In view of these figures the German argument based on reduced consumption must be accepted with a certain reserve.

## II.—EXPENDITURE.

In regard to expenditure the French Delegation has only to refer the Commission to the numerous documents collected by its services, which show the prodigality with which the Commonwealth is incurring expenses of every kind; not to mention the deficit in the railway and postal services and the food subsidies which the German Government declares that it will try to abolish in future, there are abundant examples of excessive and unnecessary expenditure, which is unjustified in Germany's present situation.

The budget for 1922-23, which the German Government submits as the result of strenuous effort at economy, abounds in examples of this sort, and the items which from their nature seem at first sight to call for no objection are usually enormously increased by reason of the excessive number of officials who draw their salaries from the various chapters of the budget.



The following table gives some of the questionable items of expenditure which still figure in the budget for 1922-23.

Number of Budget Annex.	Relevant Ministry.	Nature of Expenditure.	Sums assigned to this expenditure.
IV.	Foreign Affairs	Subsidies to various scientific institutions, publication of documents, etc.	52,008,488
V.	Interior ...	Subsidies to museums, athletic and student societies, extra share in cost of police protection, etc.	233,271,570
VI.	Economic Affairs.	Subsidies to fairs, to industries and to the boot trade.	29,250,000
VII.	Labour ...	Extra subsidies for unemployment; relief to Berlin workmen, and to miners.	243,184,000
VIII.	Navy ...	Construction of cruisers ...	44,000,000
X.	Treasury ...	Subsidies to electrical works and to sulphuric acid and aluminium factories.	631,000,500
XI.	Communications.	Subsidies for digging canals, building quays, locks, etc.	529,201,000
XIa.	Food and Agriculture.	Subsidies for the improvement of farming, the development of river fisheries, the reclamation of uncultivated land.	4,000,000
XV.	Finance ...	Expenses for construction of buildings and improvement and enlargement of offices.	143,980,000
XVIII.	General Department of Finance.	Fees to outside organisations for assistance in the administration of the Commonwealth taxes, and subsidies to German tobacco workers.	380,240,000
		Construction of coasting craft, trawlers, &c.	56,850,000
		Subsidy to cover railway deficit...	6,782,759,000
		Subsidy to cover postal deficit ...	4,232,305,424
XVIII.	Postal ...	Increase of salaries and wages, extra votes for material expenses.	6,795,969,599
		Construction of submarine cable system (telephone).	700,000,000
XIX.	Railways ...	Subsidies to officials, upkeep and purchase of material, renewal of equipment, and buildings, construction of dwellings for staff, extra material, electrification of lines, subsidies for new constructions.	28,999,298,000
		TOTAL ... ..	49,857,224,581

It appears from the foregoing that the German Government is not justified in invoking, in support of its request for a moratorium, the alleged impossibility of finding resources in the country.

It is far from having exhausted the tax-paying capacity of its nationals, especially of certain among these nationals, and it is also far from having reduced its expenditure by a considerable number of unjustifiable milliards. If a sufficient effort were made the German budget should be able, *a priori*, to show a large surplus,



and we have given reasons for this opinion elsewhere: Germany is relieved of her military, naval and colonial expenses, she has practically no foreign debt, and compared with the total figure of the budget the burden of her interior debt is negligible.

If such a result could be obtained, the issues of paper money could cease, and the depreciation of the mark be checked, while foreign commerce could be resumed on normal bases.

From all these facts we draw the conclusion that the German Government can if it wishes remove the causes which it brings forward in support of its request for a moratorium.

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## CHAPTER V.

### IMPOSSIBILITY OF RECOURSE TO FOREIGN LOANS.

The last argument advanced by the German Government to evade its present obligations is that it would be impossible for Germany to obtain credit abroad.

In support of this argument, the German Government refers to the measures taken in London during December and to the letter from the Governor of the Bank of England to the Governor of the Reichsbank. The French Delegation fully understands that it is difficult to obtain credit for a country which so obviously gives the impression of extravagance in its public finances.

The German Government must therefore begin to reform its finances, and it will then be seen whether the situation remains the same.

Moreover, Germany is scarcely justified in making any appeal for foreign assistance so long as her nationals, who possess large assets abroad whose figure at least is known, have not themselves made the required loan to their country.

Why should foreign countries lend to Germany while Germans claim to have credits abroad and properties abroad without offering the smallest loan to their Government?

There is no reason, therefore, nor even any excuse, for the last argument advanced by Germany; it is merely an avowal of present incapacity or of bad faith.

### CONCLUSIONS.

The French Delegation is convinced that even now the German Government could, with the help of its nationals, execute in 1922 its entire obligations as laid down in the Schedule of Payments.

It realises, however, that having regard to the present *de facto* situation this could not be accomplished without causing monetary disturbances directly or indirectly affecting its future capacity for payment and the interests of the Allied Powers.

An examination of the various arguments advanced by the German Government in support of its request for a moratorium shows, however, that all difficulties raised by the latter may, after all, be ascribed to the German Government itself or to its nationals.

In order in the future to avoid any repetition of the difficulties which make it necessary for the Reparation Commission to amend the Schedule of Payments for 1922, the Commission must avail itself of the rights conferred upon it by the Treaty and adopt simultaneously the required measures of guarantee and control.

If it had been proved—as claimed by the German Government—that reparation payments has destroyed the balance of Germany's budget, had affected the inflation of her paper currency, ruined the German exchange and upset world economy, the obvious duty of the Reparation Commission would have been to grant at its discretion the postponement of payment requested.

If, on the contrary, it were proved—as the French Delegation believes it has done—that the most serious causes of the trouble have no connection with reparation, if facts prove that the German crisis is due to the bad administration of the finances of the Commonwealth, and to the refusal of the German Government to adapt public finances to the situation arising out of the Treaty of Versailles and the bad faith of its nationals—it would then be the duty of the Commission no longer to avoid the responsibilities of the task assigned to it by the Treaty and to make the fullest use of its powers of control in order to guarantee that the claims of the Allied Powers on Germany be satisfied.

It is on the basis of the foregoing considerations that the French Delegation has prepared the attached draft decisions.

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Paris, March 17, 1922.

# DRAFT DECISION.

## THE REPARATION COMMISSION.

After considering the request for postponement contained in the letter of December 14, 1921, from the German Chancellor as well as the documents submitted on January 28, 1922, by the German Government in support of this request, in execution of the decision adopted by the Reparation Commission on January 13, 1922, and after giving the German Government a just opportunity of being heard.

Acting in virtue of the powers conferred upon it by Articles 234, 236, 240, 248 and 251, and by paragraph 12, of Annex II to Part VIII of the Treaty of Versailles, as well as of the powers vested in it by the Allied Governments in order to ensure in their behalf the execution of Article 249 of the said Treaty.

Considering that the financial situation in which the German Government has allowed itself to become involved makes it impossible for it to discharge in their entirety Germany's obligations for 1922 as set forth in the Schedule of Payments of May 5, 1921 on the one hand, and in Article 249 of the Treaty of Versailles on the other, and at the same time to stabilise the finances of the Commonwealth sufficiently to ensure the regular discharge of its obligations in subsequent years.

## DECIDES :

### I.

Germany shall pay, in 1922, under the terms of the Schedule of Payments of May 5, 1921, and under those of Article 249 of the Treaty of Versailles (exclusive of the obligations imposed upon her by Articles 8 to 12 of the Arrangement of June 28, 1919) :

(a) 720 million gold marks in cash.

The above sum includes the sum in gold marks representing the cash payments already made by Germany in 1922.

The balance, that is, gold marks, will be payable in the following instalments :

and on December 15th

All cash payments made by Germany to the Reparation Commission up to December 15, 1922, inclusive, and all other sums payable in cash to the Reparation Commission which, under the terms of decisions already adopted or to be adopted by the latter, fall to be credited against the annuity liability of Germany for 1922 under Article 4 of the Schedule of Payments, shall be deemed to be cash paid towards the above instalments.

(b) In kind : the equivalent in goods of 1,450 million gold marks, 950 million to France and 500 million to the other Allies.

The proceeds of the British "Reparation Recovery Act" and of any similar legislation enacted or to be enacted by the other Allied Government in execution of the decision of the Allied Governments of March 3, 1921, shall be deemed to be payments in kind.

If Germany fails to carry out in 1922 a portion of the payments in kind which shall be demanded of her by the Allied Governments within the limits of the figures above indicated and in accordance with the Treaty or with Agreements concluded between these Governments and the German Government and approved by the Reparation Commission, she shall be required to make during 1922 supplementary cash payments equivalent to the deficit in payments in kind.

## II.

The payments in kind effected by Germany between May 1, 1921, and December 31, 1922, shall first be charged, to the due amount, with the costs of the Armies of Occupation during the same period, and only the balances shall be reckoned as cash payments against the reparation annuity as laid down by Article 4 of the Schedule of Payments of May 5, 1921.

## III.

The payment of the sums carried forward in virtue of the foregoing provisions shall be made by Germany together with compound interest at per cent.\* per annum, during the years 1923-1930 inclusive in addition to the annuities due under the Schedule of Payments, in accordance with the detailed conditions to be notified later to the German Government by the Reparation Commission

## IV.

With a view to restoring her finances and replacing herself in a position to discharge her obligations under the Schedule of Payments of May 5, 1921, and Article 249 of the Treaty of Versailles, Germany shall accept the conditions laid down in the Annex to the present decision, to which it forms an integral part.

## V.

Any failure on the part of Germany to execute any of the provisions laid down by the present decision or in its Annex, through neglect, delay or default in taking or executing in their entirety the measures prescribed, will be reported by the Reparation Commission to the Allied Governments in application of paragraph 17, Annex II, Part VIII of the Treaty of Versailles.

\* The rates of interest will be determined by the Reparation Commission in such a way that these sums retain the present value.

March 17, 1922.

## ANNEX.

While taking note of the budgetary improvements set forth in the Note of January 28 from the German Government, the Reparation Commission is in no way satisfied with the programme announced in this Note.

Even if it be admitted that every effort were made to ensure its total and immediate realisation, which however does not appear to be the case, such a programme is far from being of a nature to satisfy Germany's obligations or from being in keeping with her capacity. The Reparation Commission wishes clearly to point out to the German Government that it requires a far more thorough reform of the finances of the Reich and the definitive abandonment of the procedure hitherto adopted.

The finances of the Reich must be regulated in such a way that each year the normal budgetary receipts entirely cover the expenditure of the Reich including such reparation as must be charged against Germany's revenues, and taking into account priority of reparation.

In regard to 1922, the Commission considers that Germany's reparation obligations, as reduced by its decision, should be entirely incorporated in the budget, and that this budget should be balanced accordingly.

The budget, judging from the draft submitted to the Reparation Commission, is far from being of a nature to satisfy such a condition.

The receipts are obviously inadequate and must be considerably increased.

A serious effort, which was merely indicated in the scheme submitted, can and must be made towards the reduction of expenditure in connection with the public services, the abolition of subventions and subsidies and of expenditure on public plant not urgently required, of sumptuary expenses, of the share in the expenses of various administrations and other organisations, etc.

It is possible that for 1922 the reduction of expenses to the absolute minimum may not be completely realised, but as from this year increased receipts on the other hand, and reduction of expenditure on the other, must be of such a nature as to ensure the balance of the budget as indicated above.

In addition to the assignment of part of her annual budgetary receipts to the payment of that part of her reparation obligations which is charged against her revenues, Germany must make the necessary levies on her capital to ensure the payment of the part of her obligations not to be charged against her revenues.

On the basis of the foregoing considerations, the Reparation Commission has decided upon the following general provisions.



## I.

## BUDGET OF THE REICH.

## A.—RESOURCES.

*Measures to be adopted.*

(a) Each of the measures announced by the German Government's Note of January 28, 1922, for the coming into force of which a firm date is prescribed by the Note, shall be taken at the date fixed; if this date has passed without the measure having been taken, it shall be taken within fifteen days of the present notification.

(b) The new taxes and charges contained in the fiscal compromise of January 28, 1922, shall be voted and applied within one month of the present notification.

(c) After having demanded and obtained the necessary powers by means of general legislative measures, the German Government shall take steps to ascertain the figure of the returns from taxes and charges as well as of the rates of State undertakings and monopolies affected by the fall of exchange. In this connection, it shall determine by decree, the coefficients of increase to be applied to all existing taxes, charges and rates in such a way as to give to the amount actually collected the same purchasing power as that of the amount to be collected in accordance with the law, at the time of the promulgation of the law.

The first decree, applicable to all taxes, charges and rates existing at the time of its signature, shall be adopted and enforced within one month of the present notification; subsequent decrees will follow at intervals of not more than three months.

(d) If the measures prescribed above are not found to be adequate, according to the budgetary estimates resulting therefrom, the German Government shall vote and collect, within three months of the present notification, such additional resources as will ensure the budgetary balance for 1922, account being taken of reparation annuity payments as determined by the Reparation Commission for the said year, and of the priority of such payments.

*Supervision.*

(a) All legislation or rulings adopted in execution of the above provisions shall be immediately communicated by the German Government to the Reparation Commission. In case of delay or incomplete execution of the above provisions, the Reparation Commission shall at once issue instructions to Germany, who will be required to conform therewith.

(b) The application of the measures thus enforced and more generally of all legislation relating to taxes and the tariff in Germany as established after the realisation of the programme defined

above, shall be subject to the supervision of the Committee of Guarantees. The latter shall exercise over the various departments a sufficiently thorough control to be able at any time to satisfy itself as to the application of this legislation, particularly as to the situation in regard to the assessment and collection of taxes and, if necessary, to ascertain any defects that may exist in this application. If occasion arises, it will request Germany to take the measures necessary to remedy the defects noted and will report to the Reparation Commission in case Germany has not, within reasonable time, adopted measures which it considers to be adequate.

#### B.—EXPENDITURE.

##### *Measures to be adopted.*

(a) The German Government shall carry out and submit to the Reparation Commission within one month of the present notification a revision of the expenditure entered in the draft budget for 1922 which it submitted as an annex to its Note of January 28, 1922. This revision shall be made in accordance with the general principles defined above.

The expenditure for 1922 shall in no case exceed, either for the total or for any one of the items of the budget, and except with the formal authorisation of the Reparation Commission, the figures entered in the budget of expenditure thus revised and accepted by the Reparation Commission; such figures must be regarded as the absolute maximum.

(b) The acceptance by the Reparation Commission, after revision, of the figures submitted by the German Government for the 1922 expenditure, shall not imply that the Reparation Commission approves all the items of expenditure entered. On the contrary, the Reparation Commission shall, during the year 1922, examine each item of expenditure, shall consider whether such expenditure is justified, and shall communicate to the German Government any observations which it may deem necessary. The German Government shall take account of these observations in the drawing up of the 1923 budget, so as to be able to realise, in 1923, all suitable economies not considered in the revised budget for 1922.

##### *Supervision.*

The Committee of Guarantees shall delegate to the Commonwealth Minister for Finance permanent inspectors to whom any granting of credit, within the maximum limits prescribed, shall be submitted for previous approval, and to whom the German Government shall grant all facilities for the verification, either by themselves or by duly accredited agents, of the use made of credits opened. The verification shall be extended to the services granting the credits and to the parties to whom credits are granted in such a way as clearly to show the actual use made of the funds.

The German Government shall in all cases confine itself to the decisions of the inspectors refusing approval of granting of credit; it shall, however, have the right to appeal to the Reparation Commission against these decisions and the latter shall determine whether the expenditure in question exceeds the maximum prescribed.

## II.

### BUDGET OF THE STATES, PROVINCES, MUNICIPALITIES, ETC.

CHAMBERS OF COMMERCE, ETC.

#### *Measures to be adopted.*

The German Government undertakes not to transfer to local budgets, without the express authorisation of the Reparation Commission either for the year 1922 or for any subsequent year, any service or category of expenditure at present included in the budget of the Reich, under the terms of the draft budget of 1922, enclosed with the Note of January 28, 1922.

#### *Supervision.*

The approval of the local budgets, in so far as concerns the Commonwealth Minister for Finance, shall be subject to the previous approval of the Committee of Guarantees, and all facilities shall be accorded to the Committee of Guarantees or to its duly accredited agents, by the Commonwealth Minister for Finance, to estimate the actual scope of the control exercised by the German Government over local budgets and to report thereon to the Reparation Commission.

## III.

### LEVIES ON CAPITAL.

#### A.—DIRECT LEVY.

#### *Measures to be adopted.*

After having demanded and obtained, by means of legislative measures, the necessary general powers, the German Government shall demand the remission, under the following conditions, of shares representing one-fourth of the present actual value of the industrial and commercial undertakings and real property situated on German territory or attached to it, belonging to German companies or to German nationals.

Every company enjoying civil rights, with the sole exception of purely philanthropic societies, shall issue and remit to the

German Government special shares representing in nominal value one third of the present nominal stock capital. These shares shall be possessed of rights which shall never be or become inferior to the rights enjoyed now or in future, directly or indirectly, by the most favoured shares of the company. It is stipulated in particular that all new issues of shares by the company shall be accompanied by new issues and remissions to the German Government of special shares in the above proportion, and that all rights of preference granted at any time whatsoever to any shares whatsoever of the company shall, immediately and automatically, be extended to all the special shares issued and remitted to the German Government in application of the present provisions.

These provisions shall apply equally to all companies founded subsequent to the date of the present document.

Every person, natural or artificial, including all communities other than the German Nation and States, possessing a real property, a building, an industry or a business involving right to lease, with the sole exception of artificial persons constituted for purely philanthropic purposes, shall remit to the German Government, in the existing legal form or in a form to be created, a deed constituting a mortgage on one-fourth of the value of the property and on one fourth of the yearly income from his property.

The instruments created in execution of the above provisions shall be exempt from all German taxes on capital present and future; the income from them shall be subject to German taxes present or future, without discrimination in respect of all other income.

The German Government shall endorse the instruments in favour of the Reparation Commission and shall remit them to the latter.

The Reparation Commission may itself endorse them under such conditions as it may deem fit.

The Reparation Commission shall utilise the instruments to the best interests of reparation, and shall be empowered in particular to decide :

1. Either that all or a part of the instruments shall be assigned as security for the loans issued by the German Government in agreement with the Reparation Commission. In this case the Reparation Commission may endorse all or a part of the instruments in favour of a given lending group whose loan contract involves the payment of a given sum, may keep the instruments in custody or may remit them to the lending group or to any organisation selected by the latter, according to the agreement concluded ;

2. Or that all or a part of the instruments may be repurchased by the owner of the property against payment in foreign currencies accepted by the Reparation Commission of a price freely discussed between the owner and the Reparation Commission ; it being understood that the owner thus repurchasing instruments representing a levy on his property shall be exempt from all further

levies, except in respect of further general measures applicable to all German property ;

3. Or that all or a part of the instruments shall be sold to the highest bidder, but only after the owner has been given the option to repurchase within a period to be determined hereafter.

Special provisions will be adopted later, making it possible to mobilise in favour of the Reparation Commission, and under similar conditions, the property belonging to the German Nation and States.

#### *Supervision.*

The legislative measures referred to above, in regard to the drawing up of which the German Government shall enter into negotiations with the Reparation Commission, but only in so far as concerns ways and means, shall be adopted and promulgated within three months of the present notification.

Their application shall be carried out with all possible diligence, so as to be realised within six months from the present notification for all companies quoted on change and within ten months from the present notification for all other property.

The Committee of Guarantees shall verify the application of these measures, and the agents which it shall appoint for this purpose shall be cognisant of all details of the application, on the same footing and with the same powers of investigation as the officials entrusted with carrying out the measures.

#### B.—LOANS.

Germany shall endeavour to contract loans, abroad as well as at home, the proceeds of which, at least to an amount to be determined by the Reparation Commission, shall be utilised for the payment of the reparation debt.

The German Government shall immediately appoint a representative to discuss this question with the Reparation Commission.

#### IV.

#### MEASURES TO PREVENT THE MIGRATION OF CAPITAL.

##### *Measures to be adopted.*

(a) The German Government shall complete and strengthen the laws on the supervision of banking transactions and shall in general adopt all necessary measures, in particular in regard to watching the frontiers, so as to prevent capital from being transferred to foreign countries under any form whatsoever.

(b) The German Government shall cause new legislative measures to be adopted, in time for them to come into force within three months of the present notification, to the following effect :



1. To prevent the migration of capital in the form of the export of goods;

2. To cause the return to Germany, and the entire centralisation in the hands of an organisation created for this purpose, of all sums in specified foreign currencies derived from the export, visible or invisible, of goods and the rendering of services of every sort.

For this purpose :

1. All exportation of goods of every nature whatsoever shall be subject to an export licence. The same shall hold good for all services rendered constituting an invisible export.

2. The licence shall specify the currency in which the invoice shall be drawn up.

3. By the mere fact of the granting of the licence, and unless he waives the use of it, the exporter shall be bound to pay the currency derived from the sale to the Devisencentral, if it is a question of currency to be collected by that office; in the contrary case, he shall be bound to prove that he has brought the marks derived from the sale back to Germany, through a controlled German bank.

A table, to be approved by the Committee of Guarantees and not to be changed without the approval of this body, shall give for each consignee country the currency or currencies in which the invoices of the exporters are to be drawn up.

The German Government shall pay to the German exporters the equivalent in paper marks of the currencies paid by them to the office.

The office shall place at the disposal of the importers the currencies necessary to meet payments on authorised importations.

#### *Supervision.*

The Committee of Guarantees shall strengthen and extend its supervision over exports in so far as is necessary to supervise effectively the execution of the above provisions.

It shall delegate to the Devisencentral an inspector who shall have cognisance, on the same footing and with the same powers of investigation as the German Government itself, of all the transactions of this office, and who shall be empowered to contest requests of importers for currencies, subject to referring the question to the Committee of Guarantees.

#### V.

#### AUTONOMY OF THE REICHSBANK.

##### *Measures to be adopted.*

The German Government shall adopt, in time for it to come into force within three months of the present notification, the

legislation necessary to ensure, to the satisfaction of the Reparation Commission, the complete independence of the Reichsbank from the German Government.

#### *Supervision.*

The Reparation Commission shall delegate to the Board of Directors of the Reichsbank an inspector who shall be cognisant, on the same footing and with the same powers of investigation as the Board itself, of all transactions carried out by the Reichsbank on behalf and on account of the Commonwealth. There shall be no further issue of paper money now in circulation or of any new currency whatsoever without the permission of this inspector, who shall moreover be empowered to address injunctions to the Board of Directors, subject to appeal to the Reparation Commission, in order gradually to reduce the circulation of paper in Germany in the necessary degree to abolish inflation within a reasonable time.

### VI.

#### STATISTICS.

Within three months of the present notification the German Government shall resume, in the same form and at the same intervals as before the war, the preparation and publication of economic and financial statistics. It shall, within time-limits fixed by the Reparation Commission for each special case, prepare any new statistics, or make any change in the form of statistics existing before the war, which the Reparation Commission may deem necessary for the execution of the Treaty and in particular of the present scheme.

The German Government shall furnish the Committee of Guarantees with all means of investigation necessary for the verification of statistics.

### VII.

#### GENERAL PROVISIONS.

The above provisions do not preclude any supplementary measures which the Reparation Commission may hereafter deem necessary, by virtue of the powers vested in it by the Treaty.